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RUEHMN/AMEMBASSY MONTEVIDEO 2372
RUEHBU/AMEMBASSY BUENOS AIRES 2785
RUEHSG/AMEMBASSY SANTIAGO 2078
RUEHLP/AMEMBASSY LA PAZ 3387
RUEHPE/AMEMBASSY LIMA 1160
RUEHCV/AMEMBASSY CARACAS 0514
RUEHRG/AMCONSUL RECIFE 3648
RUEHRI/AMCONSUL RIO DE JANEIRO 8170
RUEHAC/AMEMBASSY ASUNCION 3041
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UNCLAS SECTION 01 OF 02 SAO PAULO 000551

SIPDIS

SENSITIVE
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DEPT FOR WHA/BSC, WHA/EPSC, AND EB/OFD/OMA
STATE PASS TO USTR FOR SCRININ
STATE PASS EXIMBANK
STATE PASS OPIC FOR MORONESE, RIVERA, MERVENNE
NSC FOR TOMASULO
USDOC FOR 4332/ITA/MAC/OLAC
USDOC FOR 3134/USFCS/OIO
TREASURY FOR JHOEK
AID/W FOR LAC/AA
PARIS FOR ECON - TOM WHITE

E.O. 12958: N/A

TAGS: [EFIN](#) [ETRD](#) [EAGR](#) [SENV](#) [ECON](#) [BR](#)

SUBJECT: BRAZILIAN MERCANTILE AND FUTURES EXCHANGE GROWTH AND
ETHANOL TRADING

SENSITIVE BUT UNCLASSIFIED; PLEASE PROTECT ACCORDINGLY

SUMMARY

11. (SBU) In a June 15 meeting with the Ambassador, Brazilian Mercantile and Futures Exchange (BM and F) President Manoel Felix Cintra Neto and Government Relations Director Joao Lauro Amaral gave an overview of the institution and presented an optimistic outlook of derivatives and commodity trading in Brazil. With its volume doubling in the last two years and its position as the largest derivatives market in South America, the BM and F is set to become an increasingly important commodity trader in the international arena as a whole. Noting that the exchange recently began trading ethanol, Cintra laid out steps for making the product an "international fuel." End Summary.

BM&F Overview

12. (SBU) In a June 15 meeting with the Ambassador, Brazilian Mercantile and Futures Exchange (BM and F) President Cintra stated that the BM&F is the primary derivatives market in Brazil and the largest derivatives market in South America. With the average daily trading volume doubling in the past 24 months, trading peaked on June 8 with 3.9 million contracts, worth USD 167 billion. Although interest rate futures represent the largest share of traded contracts, roughly 75 percent, spot market contracts are also traded on several instruments (e.g., gold, FX). Trading occurs electronically (e.g., interest rates) or in open pits (e.g., agricultural commodities) depending on the contract, Cintra said. The BM and F is regulated by the CVM (Comisao de Valores Mobiliarios, the Brazilian equivalent of the Securities and Exchange Commission).

The BM and F has nearly 100 members authorized to trade. The most recent set of financial statements (June 30, 2006) indicate that the BM and F had total assets worth USD 750 million and a net income (H1 2006) of approximately USD 52 million.

¶3. (SBU) According to Cintra, the BM and F began operations in January of 1986. A significant expansion in activity occurred in 2002-03 when the Brazilian Central Bank authorized inter-bank foreign exchange transactions to be made through the BM and F. Additional fixed income contracts began to be traded and foreign investor interest in Brazil began to increase. Foreign investor participation has now risen from less than 5 percent to approximately 20 percent.

¶4. (SBU) Cintra added that the BM and F is currently a trading platform for a wide range of derivative contracts, including currencies, fixed income, equity indexes, and commodities (cattle, coffee, corn, gold, soybean, sugar). Swaps, options and futures are available. In September 2005, carbon emissions contract trading began.

Ethanol is the Future

¶5. (SBU) Cintra noted that on April 24 of this year the BM&F began to trade ethanol. The BM&F expects ethanol contracts to become a key source of future growth, he commented. While trading volume thus far is light, public interest is substantial. BM and F management has already scheduled road shows in Europe, Asia and North America to promote ethanol contracts. Cintra views the development of a derivatives market as essential for promoting the future global use of ethanol. A derivatives market will assist

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suppliers and purchasers in managing their risks, reducing transaction costs through increased liquidity and providing a means for price discovery at regular intervals, he stated. He presented increasing liquidity as a major challenge for ethanol trading.

¶6. (SBU) When the Ambassador noted the growth of interest in ethanol and biofuels in general, Cintra stated that ethanol trading must be internationalized. Cintra called for technology transfer, new facilities to produce ethanol and increasing trade as the next steps. He said ethanol will become an "international fuel" only when more countries begin to produce.

¶7. (U) This cable was coordinated with Embassy Brasilia and approved by Ambassador Sobel.

SOBEL